

Register Number:

Date:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**BCOM IFA - II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2022**

(Examination conducted in July-August 2022)

**BC IFA 2219 – Financial Reporting I**

**Time – 2 ½ hrs Max Marks – 70**

**This paper contains 6 printed pages and four parts**

**SECTION A**

**Answer any 5 of the following questions. Each question carries 2 marks. (5x2=10)**

1. Which of the following gives the best description of the objectives of financial statements as set out by the International Accounting Standards Board’s (The Board’s) Conceptual Framework for Financial Reporting?
2. To fairly present the financial position and performance of an enterprise.
3. To fairly present the financial position, performance and changes in financial position of an enterprise.
4. To provide information about the financial position and performance of an enterprise that is useful to a wide range of users in making economic decisions.
5. To provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.
6. The International Accounting Standards Board’s Conceptual Framework for Financial Reporting identifies qualitative characteristics of financial statements.

Which TWO of the following characteristics are NOT fundamental qualitative characteristics according to the *IASB’s The Conceptual Framework for Financial Reporting?*

1. Relevance
2. Reliability
3. Faithful representation
4. Comparability
5. Which of the following statements regarding IFRS 13 Fair Value Measurement is not true? Give the correct answer.
6. Level 1 inputs are likely to be used without adjustment.
7. Level 3 inputs are based on the best information available to market participants and are therefore regarded as providing the most reliable evidence of fair value.
8. Level 2 inputs may include quoted prices for similar (but not identical) assets and liabilities in active markets.
9. Level 1 inputs comprise quoted prices in active markets for identical assets and liabilities at the reporting date.
10. Which of these changes would be classified as ‘a change in accounting policy’ as determined by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors?
11. Increased the allowance for irrecoverable receivables from 5% to 10% of outstanding debts
12. Changed the method of valuing inventory from FIFO to average cost
13. Changed the depreciation of plant and equipment from straight line depreciation to reducing balance depreciation
14. Changed the useful life of motor vehicles from six years to four years
15. Match the element to the correct definition according to the International Accounting Standards Board’s Conceptual Framework for Financial Reporting?

|  |  |  |
| --- | --- | --- |
| Sl. No. | **Element** | **Definition** |
| (i) | Expense | A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. |
| (ii) | Liability | The residual interest in the assets of the entity after deducting all its liabilities. |
| (iii) | Asset | A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. |
| (iv) | Equity | Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities. |

1. Identify whether each of the following is a limitation of applying ratio analysis to

published financial statements or not.

|  |  |  |
| --- | --- | --- |
|  | **Limitation** | **Not a limitation** |
| Financial statements often use historic cost, meaning that inflation is not taken into account |  |  |
| Complex items may not fit into any accounting standards and therefore may be omitted from the financial statements |  |  |

**SECTION B**

**Answer any 3 of the following questions. Each question carries 5 marks. (3x5=15)**

1. Apex received a $10 million 6% loan on 1 April 20X7. The loan will be redeemable at a premium which means the loan has an effective finance cost of 7.5% per annum. The loan was specifically issued to finance the building of a new store. Construction of the store commenced on 1 May 20X7 and it was completed and ready for use on February 20X8, but did not open for trading until 1 April 20X8. **Answer all the following questions based on this scenario.**
2. How should the loan be treated in the financial statements of Apex for the year ended 31 March 20X8?
3. Present value
4. Fair value through other comprehensive income
5. Fair value through profit or loss
6. Amortised cost

(ii) How much should be recorded as finance costs in the statement of profit or loss for the year ended 31 March 20X8?

$\_\_\_\_\_\_\_\_\_\_ ,000

(iii) How much interest should be capitalised as part of property, plant and equipment as at 31 March 20X8?

$\_\_\_\_\_\_\_\_\_\_ ,000

**(1+2+2)**

1. The following information relates to a construction contract:

|  |  |
| --- | --- |
| Contract price  Costs to date  Estimated costs to complete  Estimated stage of completion | $800,000  $320,000  $280,000  60% |

What amounts of revenue, costs and profit should be recognised in the statement of profit or loss?

1. During the year ended 30 September 20X4 H entered into two lease transactions. On 1 October 20X3, H made a payment of $90,000 being the first of five equal annual payments under a lease for an item of plant.  The lease has an implicit interest rate of 10% and the present value of the total lease payments on 1 October 20X3 was $340,000. On 1 January 20X4, H made a payment of $18,000 for a one‐year lease of an item of equipment.

Show the extract of H’s statement of profit or loss for the year ended 30 September 20X4 in respect of the above transactions?

1. Briefly explain IAS 10 – Events after the Reporting Period.

**SECTION C**

**Answer any 2 of the following questions. Each question carries 15 marks. (2x15=30)**

1. (i) XML produced cards and sold roses. However, half way through the year ended 31 March 20X6, the rose business was closed and the assets sold off, incurring losses on the disposal of non-current assets of $76,000 and redundancy costs of $37,000. The directors reorganised the continuing business at a cost of $98,000. Trading results may be summarised as follows:

|  |  |  |
| --- | --- | --- |
|  | Cards | Roses |
| Particulars | $000 | $000 |
| Revenue | 650 | 320 |
| Cost of sales | 320 | 150 |
| Distribution | 60 | 90 |
| Administration | 120 | 110 |

Other trading information (to be allocated to continuing operations) is as follows:

|  |  |
| --- | --- |
|  | $000 |
| Finance costs | 17 |
| Tax | 31 |

**You are required to draft the statement of profit or loss for the year ended 31 March 20X6. (10 marks)**

1. **What is meant by**
2. Parent
3. Non-coterminous year ends

**(1+4)**

1. Statements of financial position and statements of profit or loss for Finland Motors are set out below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Finland Motors statement of financial position** | | | | |
|  | **20X2** | | **20X1** | |
| **Particulars** | $000 | $000 | $000 | $000 |
| **Non-Current Assets:** |  |  |  |  |
| Land and buildings:  Cost  Depreciation |  |  |  |  |
| 1,600  (200) | 1,400 | 1,450  (150) | 1,300 |
| Plant and machinery:  Cost  Depreciation | 600  (120) | 480 | 400  (100) | 300 |
| **Current assets:** |  |  |  |  |
| Inventory  Receivables | 300  400 | 700 | 100  100 | 200 |
| **Total Assets** |  | **2,580** |  | **1,800** |
|  |  |  |  |  |
| **Equity:** |  |  |  |  |
| Share capital – $1 ordinary shares | 1,200  310 | 1,510 | 1,200  220 | 1,420 |
| Retained earnings |
| **Current liabilities:** |  |  |  |  |
| Bank overdraft | 590  370  110 | 1,070 | 210  70  100 | 380 |
| Payables and accruals |
| Taxation |
| **Total Equities and Liabilities** |  | **2,580** |  | **1,800** |

|  |  |  |
| --- | --- | --- |
| **Finland Motors statement of profit or loss** | | |
|  | **20X2** | **20X1** |
| **Particulars** | $000 | $000 |
| Sales revenue  Cost of sales  Gross Profit  Administration and distribution expenses  Profit before tax  Income tax expense  Profit for the year | 1,500  (700)  800  (400)  400  (200)  200 | 1,000  (300)  700  (360)  340  (170)  170 |

The dividend for 20X1 was $100,000 and for 20X2 was $110,000.

**Calculate the following ratios for Finland Motors and briefly comment upon what they indicate:**

1. Profitability ratios:
2. gross profit margin
3. operating profit margin
4. ROCE
5. net asset turnover.
6. Liquidity and working capital ratios:
7. current ratio
8. quick ratio
9. inventory collection period

(2+2+2+2+2+2+3)

1. Briefly explain the accounting treatment of the following standards
2. IAS 20 – Government Grants
3. IAS 2 - Inventory
4. IAS 36 – Impairment of assets

(5+5+5)

**SECTION D**

**Answer the following question and it carries 15 marks. (1x15=15)**

1. The following trial balance relates to Q as at 30 September 20X2:

|  |  |  |
| --- | --- | --- |
|  | **$000** | **$000** |
| Revenue  Cost of sales  Distribution costs  Administrative expenses  Interest  Dividend paid  Investment income  Equity shares of 25 cents each  6% loan note  Retained earnings at 1 October 20X1  Plant and equipment at cost  Accumulated depreciation of plant and equipment  Equity financial asset investments  Inventory at 30 September 20X2  Trade receivables  Bank  Rent  Interest on investment  Trade payables | 136,800  12,500  19,000  1,500  19,200  83,700  17,000  24,800  28,500  2,900  1,100 | 213,500  400  60,000  25,000  6,500  33,700  1,200  6,700 |
|  | **347,000** | **347,000** |

Consider the following relevant notes:

1. Plant and equipment is depreciated at 15% per annum using the reducing balance method. No depreciation has yet been charged for the year ended 30 September 20X2. All depreciation is charged to cost of sales.
2. Allowances for trade receivables @ 10% per annum

Prepare **statement of profit or loss** and **statement of financial position** as per 30 September 20X2.